

# FIRST LIGHT

## RESEARCH

### Hero MotoCorp | Target: Rs 2,900 | 0% | REDUCE

Near-term headwinds; REDUCE

### Bandhan Bank | Target: Rs 335 | +13% | ADD

Aggressive write-offs prop up asset quality

## SUMMARY

### Hero Moto Corp

Hero MotoCorp's (HMCL) Q4FY21 operating performance was marginally ahead of our estimates due to an above-expected gross margin. Revenue grew 40% YoY to Rs 87bn and EBITDA margin stood at 13.9% (12.4% est.). Our FY22/FY23 revenue estimates are on par with consensus, but our EPS forecasts remain ~9% lower on softer gross margin assumptions. We maintain our earnings outlook and Mar'22 TP at Rs 2,900, set at 15x EPS. The stock has corrected ~18% over the last three months and hence we realign to a REDUCE rating from SELL.

[Click here for the full report.](#)

### Bandhan Bank

Bandhan Bank (Bandhan) reported Q4FY21 PAT of Rs 1bn (-80% YoY), much below our and consensus estimates owing to a spike in provisions. Asset quality was aided by Rs 19bn in aggressive write-offs which shaved 30bps off GNPA ratio. Collection efficiency reduced further by 3-4% in April. Credit cost is likely to remain steep in FY22 as the 0.5% provision buffer looks inadequate, PCR is low at 50% and SMA loans are elevated at ~9%. We cut FY22/FY23 EPS by 17%/13% on higher credit cost estimates and lower our Mar'22 TP to Rs 335 (vs. Rs 375).

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,190

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	540
<a href="#">Transport Corp</a>	Buy	320

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.57	0bps	(13bps)	93bps
India 10Y yield (%)	5.97	0bps	(15bps)	(5bps)
USD/INR	73.76	0.2	(0.6)	2.6
Brent Crude (US\$/bbl)	68.09	(1.3)	9.6	131.1
Dow	34,549	0.9	3.0	44.7
Shanghai	3,441	(0.2)	(1.2)	19.8
Sensex	48,950	0.6	(0.4)	55.7
India FII (US\$ mn)	5 May	MTD	CYTD	FYTD
FII-D	2.8	93.2	(2,299.1)	(271.8)
FII-E	(61.9)	(523.2)	5,314.0	(2,012.3)

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**REDUCE**

TP: Rs 2,900 | ▼ 0%

**HERO MOTOCORP**

Automobiles

07 May 2021

## Near-term headwinds; REDUCE

Hero MotoCorp's (HMCL) Q4FY21 operating performance was marginally ahead of our estimates due to an above-expected gross margin. Revenue grew 40% YoY to Rs 87bn and EBITDA margin stood at 13.9% (12.4% est.). Our FY22/FY23 revenue estimates are on par with consensus, but our EPS forecasts remain ~9% lower on softer gross margin assumptions. We maintain our earnings outlook and Mar'22 TP at Rs 2,900, set at 15x EPS. The stock has corrected ~18% over the last three months and hence we realign to a REDUCE rating from SELL.

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**Operational beat:** Q4 revenue was in line with our estimate at Rs 86.9bn, up 40% YoY fuelled by strong spares sales and price hikes alongside volume growth of 18% YoY. A steady 29.6% gross margin QoQ (vs. our estimate of a 150bps decline) led to a beat on operating margin (13.9% vs. 12.4% est.). EBITDA increased 84% YoY to Rs 12bn and adj. PAT grew 39% YoY to Rs 8.6bn, 14% ahead of our projection.

Ticker/Price	HMCL IN/Rs 2,913
Market cap	US\$ 7.9bn
Shares o/s	200mn
3M ADV	US\$ 42.2mn
52wk high/low	Rs 3,629/Rs 1,955
Promoter/FPI/DII	35%/32%/19%

Source: NSE

**Near-term margin headwinds:** With inventories above normal, the sustainability of production will hinge on a pickup in retail sales, which looks uncertain due to the rising Covid-19 infections. In addition, we remain cautious on profitability as the sharp inflation in key inputs (~10% QoQ increase in steel and rubber prices during Q4) is estimated to deplete near term gross margin by >150bps (over Q4 levels), even assuming the company takes a 2% hike in vehicle prices.

## STOCK PERFORMANCE



Source: NSE

**Stock has corrected sharply; REDUCE:** We expect HMCL to clock a revenue/EBITDA/PAT CAGR of 12%/12%/14% during FY21-FY23. Although our revenue numbers are on par with consensus, our earnings forecasts are ~9% lower as we anticipate weaker gross margins. Considering the ~18% stock price correction over the last three months to current valuations of 15x FY23E EPS, we realign our rating from SELL to REDUCE. Our TP of Rs 2,900 is set at 15x FY23E.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	336,505	288,361	308,006	352,605	388,430
EBITDA (Rs mn)	49,301	39,580	40,191	45,268	50,306
Adj. net profit (Rs mn)	33,849	29,559	29,641	33,981	38,363
Adj. EPS (Rs)	169.5	148.0	148.4	170.2	192.1
Adj. EPS growth (%)	(8.5)	(12.7)	0.3	14.6	12.9
Adj. ROAE (%)	26.3	20.9	19.5	20.0	19.9
Adj. P/E (x)	17.2	19.7	19.6	17.1	15.2
EV/EBITDA (x)	11.8	14.7	14.4	12.8	11.6

Source: Company, BOBCAPS Research | P – Provisional



**ADD**

TP: Rs 335 | ▲ 13%

**BANDHAN BANK**

| Banking

| 08 May 2021

## Aggressive write-offs prop up asset quality

**Bandhan Bank (Bandhan) reported Q4FY21 PAT of Rs 1bn (-80% YoY), much below our and consensus estimates owing to a spike in provisions. Asset quality was aided by Rs 19bn in aggressive write-offs which shaved 30bps off GNPA ratio. Collection efficiency reduced further by 3-4% in April. Credit cost is likely to remain steep in FY22 as the 0.5% provision buffer looks inadequate, PCR is low at 50% and SMA loans are elevated at ~9%. We cut FY22/FY23 EPS by 17%/13% on higher credit cost estimates and lower our Mar'22 TP to Rs 335 (vs. Rs 375).**

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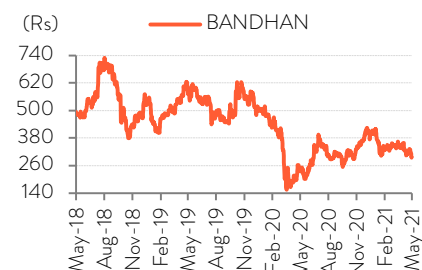
**Collection efficiency in Assam dips further:** Asset quality was masked by large write-offs worth Rs 19bn, which led to a reduction in GNPA ratio. The states of Assam and West Bengal contributed ~75% of the write-offs. Collection efficiency in Assam dipped further to 83% (88% in Q3), but West Bengal saw improvement to 95%. Management highlighted that collection efficiency in Apr'21 has dipped by a further 3-4%. In addition, the bank has restructured affordable housing loans worth Rs 6.2bn (3% of the mortgage book).

Ticker/Price	BANDHAN IN/Rs 297
Market cap	US\$ 6.5bn
Shares o/s	1,611mn
3M ADV	US\$ 38.6mn
52wk high/low	Rs 431/Rs 195
Promoter/FPI/DII	31%/35%/34%

Source: NSE

**Microfinance remains key engine of loan growth:** The bank's loan book grew 23% YoY supported by 26% growth in the microfinance portfolio (67% of AUM). The mortgage portfolio grew 9% YoY while retail credit rose 63% on a low base.

## STOCK PERFORMANCE



Source: NSE

**Liability franchise continues to gain traction:** Deposits increased 37% YoY aided by 60% growth in CASA deposits. CASA ratio improved to 43.4%. NIM at 6.8% slipped 150bps QoQ due to interest reversals on slippages of Rs 5.3bn.

**Maintain ADD:** We cut FY22/FY23 EPS 17%/13% to bake in higher credit costs, and reset our target P/BV from 2.4x to 2.2x given uncertainty around the second Covid wave. Retain ADD with a TP of Rs 335 as Bandhan has high potential for growth by virtue of its presence in underpenetrated regions and loan products.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	44,954	63,239	75,634	89,779	106,899
NII growth (%)	48.3	40.7	19.6	18.7	19.1
Adj. net profit (Rs mn)	19,515	30,237	22,055	32,723	46,222
EPS (Rs)	16.4	21.6	13.7	20.3	28.7
P/E (x)	18.2	13.8	21.7	14.6	10.4
P/BV (x)	3.2	3.2	2.8	2.4	2.0
ROA (%)	3.9	4.1	2.1	2.6	2.9
ROE (%)	19.0	22.9	13.5	17.4	21.0

Source: Company, BOBCAPS Research | P – Provisional



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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